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Matthew Clark
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Dear Matthew,

1 Transpower has recently identified that the Commerce Commission's (the Commission's) 'Transpower's Individual Price-Quality Path (IPP) from 2025' (aka Regulatory Control Period 4, RCP4) draft decision included a deliverability adjustment to Transpower's expenditure allowance for the first year (2025/26) of RCP4. As we only recently identified this, we did not submit on it during the Commission's consultation.

2 We do not dispute the Commission's logic for making a deliverability adjustment in the first year if it was concerned with Transpower ability to hire FTEs. However, based on the Commission's draft decision, we are underfunded, against the Commission's assessment of prudent and efficient expenditure, to achieve the delivery targets the Commission has set. This is inconsistent with the Part 4 purpose.

3 While the Commission does not state its reasons for not providing a reopener in the first year of RCP4, we understand that it is likely because revenue in the first year needs to be fixed for pricing reasons. This prevents any reopeners from applying in the first year.

4 Below we set out our reasons for not submitting on this earlier, our FY23/24 FTEs, and proposed amendments to the draft IPP. Our proposed amendments would retain the Commission's deliverability adjustment to the first year but would allow us to apply for recovery of expenditure if we meet the targets specified by the Commission under the delivery risk mechanism.

5 We do not consider an adjustment to the delivery risk mechanism to allow for delivery expenditure in 2025/26 to be contrary to any of the submissions received by the Commission. The majority who submitted on this issue supported a delivery risk mechanism and that Transpower should be funded to carry out required work.

The 2025/26 adjustment

6 The Commission did outline that it considered an adjustment to 2025/26 in the summary of its draft decision (Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Draft Decision) in three places – Footnote 12, Table X1, Table X3. The Commission's 'Deliverability model' provides its model and its calculations for adjustments. However, the Commission did not set out in its documentation the reasons for its decision to make an adjustment for 2025/26.

7 In particular, 'Draft Decision Attachment E – Deliverability expenditure', where we expected to find the details of the deliverability adjustment, the Commission made no reference to an adjustment for 2025/26. Paragraphs 4.6 and 4.7 refer to the Commission's deliverability adjustment, but Table 4.1 only sets out adjustments to years 2026/27 to 2029/30.

8 The Commission set out in its draft decision that Transpower could update the Commission with our Year 1 FTEs as part its draft decision submission.[1] The section (Section 4) in which this statement was made did not outline any year 1 adjustment made by the Commission. This is why we did not provide updated FTE estimates. As set out in our submission, we accepted the Commission's delivery risk mechanism and the contingent amounts from the second pricing year, and therefore did not (at the time) see a reason to submit on our FTE attainment.

9 In addition, in 'Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Draft Decision', paragraph 3.5 states the following:

> *Given these concerns, and following analysis based on Transpower estimates of what it may deliver over RCP4 and how its recruitment is progressing, we have made adjustments to Transpower's expenditure allowances. These adjustments are set out in Table 3.5.*

Table 3.5 Contingent adjustments to expenditure allowances to mitigate delivery risk ($ million)

Expenditure category	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	RCP4 total[47]
Capex	-	-25.2	-27.3	-27.1	-25.1	-104.7
Opex	-	-11.7	-13.3	-15.3	-15.8	-56.1
Total	**-**	**-37.0**	**-40.6**	**-42.3**	**-40.8**	**-160.7**

10 For the avoidance of doubt, as the delivery risk adjustment mechanism uses the previous year's hiring, the Commission's decision means that we would not have revenue for the additional staff in 2025/26 which are needed to achieve the deliverability targets in the subsequent years.

11 This, alongside the other statements in the Commission's documentation, led us to (incorrectly) conclude the Commission was not adjusting the first year and was providing us access to revenue to deliver investments it considered to be prudent and efficient.

2023/24 FTEs

12 While not stated in the Commission's 'Draft Decision Attachment E – Deliverability expenditure', we understand that the Commission decided to make the deliverability adjustment for 2025/26 based on our FTE hiring as at 31 January.

[1] Draft Decision Attachment E – Deliverability expenditure, paragraph 4.10.

13 This information was provided in RFI008, provided by us to the Commission on 15 February 2024. In that RFI, we stated the following:

"As at 31 January 2024 we have recruited 59 (65%) of the planned additional 92 FTE. Of these roles 23 have been filled with internal hires, providing progression for staff and 36 have been filled by external hires. Another 15 of the 92 FTE are currently being recruited and 1 has been deferred until the 24/25 year, leaving 17 FTE to be filled by 30 June, which were planned to be hired later in FY23/24.

The initiatives we have put in place attract and retain employees have resulted in a reduction of overall turnover and it is pleasing to see turnover has reduced to historically lower levels in the grid divisions and the engineering job family. The increase of the graduate programme is providing a pipeline of skilled employees who have accelerated development in the engineering domains we have identified as critical.

We have been able to recruit the additional transmission FTE from within NZ without having to resort to recruiting offshore. This is a positive sign that Transpower is seen as attractive place to work.

The roles filled by Division are as follows:

Division	***FTE uplift***	***FTE filled***	***Recruiting***	***To be recruited***
Chief Executive's Office	*4*	*1*	*1*	*2*
Corporate Services	*6.5*	*4.5*	*1*	*1**
External Affairs	*2.2*	*2.4*	*0*	*0*
Grid Delivery	*17.8*	*12.8*	*2*	*3*
Grid Development	*23.5*	*15.5*	*4*	*4*
Information Services & Technology	*7*	*6*	*1*	*0*
Operations	*10*	*6*	*3*	*1*
People (including grads)	*21*	*11*	*3*	*7*
Total	***92***	***59.2***	***15***	***18***

* *deferred until FY24/25."*

14 Therefore, while we were under our FY23/24 target as at 31 January, we still had five months to hire the additional staff and we were confident we would meet our hiring targets. Therefore, we had not expected a deliverability adjustment on this basis.

15 We did not receive another request for information from the Commission on our recruitment processes at the end of FY23/24. We provide this information below:

16 The roles filled by Division are as follows as at 30 June 2024

Division	FTE filled 30 June 2024	Recruiting
Strategy, Regulatory and Governance	2	1
Corporate Services	8	1
External Affairs	6.2	0
Grid Delivery	19	1
Grid Development	19.5	0
Information Services & Technology	6	2

Division	FTE filled 30 June 2024	Recruiting
Operations	10	-
People (including grads)	15	1
Total	**85.7**	**6**

17 As can be seen from the table above, we have recruited 85.7 FTE (93% against a target of 92) and a further 6 FTE the recruitment process was underway with three of the six roles recruited and further two at the offer stage as at 16^{th} August.

Proposed amendment to the Draft IPP

18 Transpower requests that the Commission amend the deliverability reopener to allow Transpower to recover prudent and efficient expenditure for 2025/26 by allowing it to adjust the 2026/27 expenditure allowances. In effect this would remove any incentive penalty on Transpower, by allowing the capex incentive and IRIS incentive payment on any overspend in 2025/26 to be offset by an underspend in 2026/27.

19 Transpower would provide the Commission with its FTEs in 2024/25 against its targets (or the Commission could use 2025/26 actual FTEs), and the Commission could then adjust the 2026/27 allowance (instead of the 2025/26 allowance).

20 Transpower would bear a time-value penalty, as 2025/26 would appear as an overspend, but we consider that this would be small (and therefore acceptable).

21 Our proposed amendment to the Draft IPP, Schedule EA, are set out in the table below. Amendments are underlined.

Clause	Proposed amendment
Table	Add the delivery adjustment parameters to the pricing year ending 31 March 2026 in the table.
4	If, in a **pricing year** (PY_{n-1}) other than the first **pricing year**, the FTE update is equal to or greater than the target FTE total, then, for the following **pricing year** (PY_n) and for each remaining **pricing year** in the **RCP**: a. the **base capex** increase equals the maximum **base capex** increase specified for that **pricing year** in the table; and b. the **opex** increase equals the maximum **opex** increase specified for that **pricing year** in the table.
New clause 5	If, in the first **pricing year** (PY_{n-1}), the FTE update is equal to or greater than the target FTE total, then, for the second **pricing year** (PY_n): a. the **base capex** increase equals the sum of the maximum **base capex** increase specified for the first and second **pricing years** in the table; and b. the **opex** increase equals the sum of the maximum **opex** increase specified for the first and second **pricing years** in the table.
~~5~~ 6	In a **pricing year** (PY_n) other than the first or second **pricing year**: a. the **base capex** increase is calculated using the following formula:

Clause	Proposed amendment
	$\textbf{base capex}\ \textit{increase}_{PYn} = (\textit{FTE update}_{PYn-1} - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{base capex}\ \textit{per FTE}_{PYn}$ b. the **opex** increase is calculated using the following formula: $\textbf{opex}\ \textit{increase}_{PYn} = (\textit{FTE update}_{PYn-1} + 10 - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{opex}\ \textit{per FTE}_{PYn}$
New clause 8	In the second **pricing year** (PY_n): a. the **base capex** increase is calculated using the following formula: $\textbf{base capex}\ \textit{increase}_{PYn} = (\min(\textit{Target FTE Total}_{PYn-1}, \textit{FTE update}_{PYn-1}) - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{base capex}\ \textit{per FTE}_{PYn} + (\min(\textit{Target FTE Total}_{PYn-1}, \textit{FTE update}_{PYn-1}) - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{base capex}\ \textit{per FTE}_{PYn-1}$ b. the **opex** increase is calculated using the following formula: $\textbf{opex}\ \textit{increase}_{PYn} = (\min(\textit{Target FTE Total}_{PYn-1}, \textit{FTE update}_{PYn-1}) + 10 - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{opex}\ \textit{per FTE}_{PYn} + (\min(\textit{Target FTE Total}_{PYn-1}, \textit{FTE update}_{PYn-1}) + 10 - \textit{decision FTE total}_{PYn-1})\ x\ \textbf{opex}\ \textit{per FTE}_{PYn-1}$
~~7~~ 9	2. The amounts calculated under clause 6 must be modified as necessary to meet the following requirements: a. the **base capex** increase in any **pricing year** other than the second **pricing year** must not exceed the maximum **base capex** increase specified for that **pricing year** in the table; b. if, in a **pricing year** (PY_{n-1}), the FTE update less the decision FTE total is less than 10, the **opex** increase for the following **pricing year** (PY_n) is zero; and c. the **opex** increase in any **pricing year** other than the second **pricing year** must not exceed the maximum **opex** increase specified for that **pricing year** in the table.

22 Nothing in this letter is confidential. Please contact me if you have any questions on the above.

Yours sincerely

Joel Cook

Head of Regulation